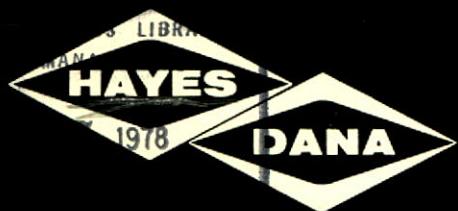
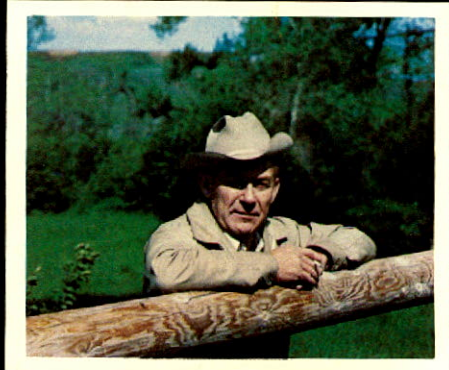
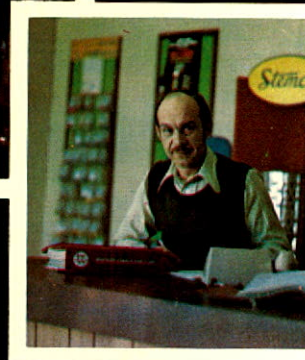
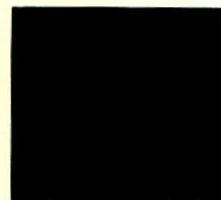
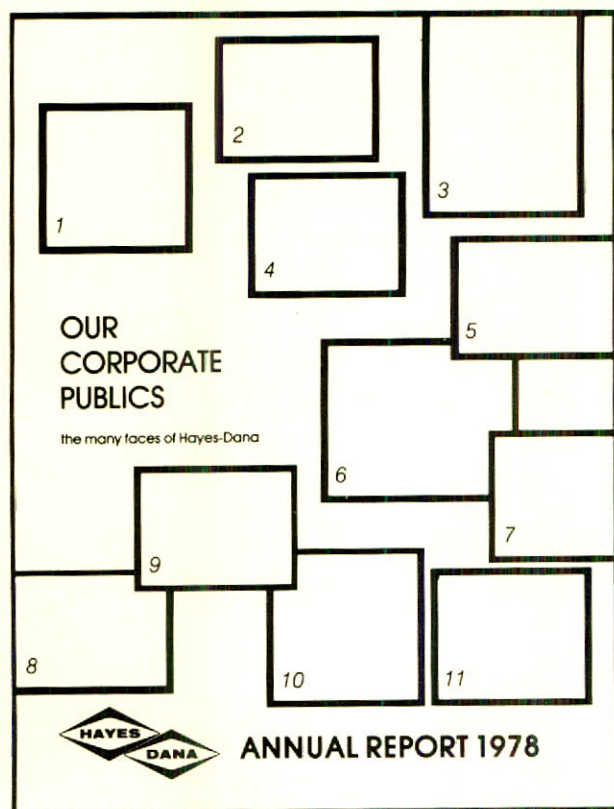


OUR CORPORATE PUBLICS

the many faces of Hayes-Dana



ANNUAL REPORT 1978



OUR CORPORATE PUBLICS

On our cover and throughout the pages of this Annual Report are pictured some of the many faces of Hayes-Dana Limited. These people are members of our corporate "publics", and include stockholders, employees, customers, and the community at large.

The common thread running through these varied publics is an interest in and a claim upon the company. These claims take different forms but include; earnings and employment consistency, increasing dividend trend, quality products/services and financial stability.

During the fiscal year, we will make use of the quarterly reports to further expand upon our corporate publics — and also look at the company's responsibility to maintain an equitable and working balance among the often competing claims of these groups.

(1) Olive Cotton, Calgary, Alberta -shareholder. (2) Darlene Burke, Chassis Products Division, Thorold, Ontario. (3) Alan Morrow, Lunenburg, Nova Scotia -shareholder. (4) Ian Mitchell, Bill Henderson, Kirk Calvert, Chassis Products Division, Thorold, Ontario. (5) Gilles Rainville, Drive Train Plant, Thorold, Ontario. (6) Charlie MacFadden, Halifax, Nova Scotia -shareholder. (7) Dennis Bouthroux, Western Wheel and Parts, Kamloops, British Columbia. (8) Evelyn Letendre, Drive Train Division, Thorold, Ontario. (9) Don D'Innocenzo, Forge Division, St. Catharines, Ontario. (10) Dick Chow, Vancouver, British Columbia -shareholder. (11) John Ross, Lethbridge, Alberta -shareholder.

FINANCIAL RESULTS IN BRIEF

YEAR ENDED AUGUST 31

	1978	1977	1976
NET INCOME PER COMMON SHARE	\$1.15	\$1.08	\$.96
DIVIDENDS PAID PER COMMON SHARE	\$.319	\$.264	\$.24
OUR NET INCOME AFTER TAX AMOUNTED TO	\$6,936,000	\$6,549,000	\$5,791,000
WE MADE ON EACH DOLLAR OF SALES	4.6¢	4.5¢	4.5¢
RECEIVED FROM CUSTOMERS FOR			
PRODUCTS AND SERVICES	\$150,081,000	\$145,164,000	\$128,944,000
NUMBER OF SHAREHOLDERS	2,820	2,760	2,730
NUMBER OF PEOPLE EMPLOYED	2,150	2,330	2,250



HAYES-DANA LIMITED

THOROLD, ONTARIO
L2V 3Z6

September 28, 1978

TO OUR SHAREHOLDERS:

GOOD NEWS

Well, we did it! Not only did we replace all of the sales lost one year ago due to customer integration (some \$55 million) but we went on to set a new sales and earnings record for the fifth consecutive year.

Our thanks go to you, our shareholders, who have had the confidence to hang in there with us during a difficult transition period for your company. To reward your patience, at their meeting to be held on November 9, 1978, the directors will be asked to approve an increase in the annual dividend to 40 cents (10 cents per quarter) from the current 26 cents, effective with the December 1978 payment. This amounts to a 48% increase in the regular dividends paid last year (a 25% increase over the total dividends paid last year when the 5 cent year-end special dividend is included).

FINANCIAL RESULTS

The financial details are these: earnings for the fiscal year ended August 31, 1978 were \$6,936,000 or \$1.15 per share, an increase of \$387,000 over the \$6,549,000 or \$1.08 per share earned in 1977. Sales for 1978 were \$150,081,000 up \$4,917,000 from the \$145,164,000 reported last year.

Results for the fourth quarter were fully up to our expectations as shipments of two new products, van side members and heavy truck axle housings, boosted total sales to \$45,560,000, an increase of 57% over the same quarter last year. Earnings were even better as they advanced 80% to \$1,345,000 or 22 cents per share versus \$749,000 and 12 cents per share in 1977.

CREDIT OUR PEOPLE

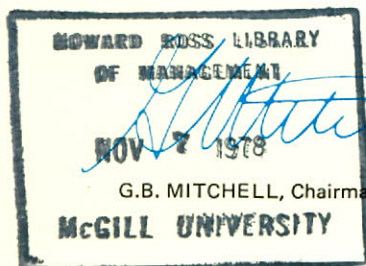
We cannot emphasize enough the critical role our people have played in the recent successes of the Company. An important measure of this effort is that they have doubled their productivity (sales output per person) in just seven years.

To do it again — to double productivity in the next seven years — is our challenge.

LOOKING AHEAD

Our new orders are excellent going into the first quarter of the new fiscal year, which means that we will continue to operate our plants at capacity. To solve this problem, we are investing record amounts in new machinery, equipment, and buildings to expand capacity, to assure that our quality products remain cost competitive and to accomplish our 15% annual growth rate objective.

While dealing with this subject of investment, we think it is important for you as shareholders and as Canadians to recognize that our successful actions in recalling all of the 650 people laid off last year and developing new products were accomplished without assistance from any government agency and despite the obstacles presented by such offices as the Foreign Investment Review Agency (FIRA) or the Anti-Inflation Board (AIB). The message should be clear — we need less government, not more, to spur economic growth.



G.B. MITCHELL, Chairman of the Board

GEORGE D. DORESEO, President



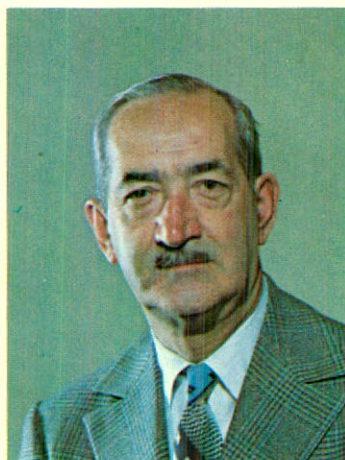
John Moon, Toronto, Ontario



Joan Addison, King, Ontario.



Pat Driscoll, Moncton, New Brunswick.



Marcel Chagnon, Montreal.



Fred McArdell, Hinton, Alberta.



OUR SHAREHOLDERS

We have a policy statement which says, "The purpose of Hayes-Dana Limited is to earn money for its stockholders and to protect and increase the value of their investment. We believe the best measurement of the accomplishment of our purpose is the constant growth in the corporations earnings per share." That says it — a very clear statement of the high priority we put on increasing the shareholders' investment.

We believe the best way to achieve this increase in the money value of the shareholders' investment is to continue doing what we know best — getting quality products/services out the backdoor — on time — at competitive market prices and without sacrificing profitability.

In so doing we create the earnings consistency that paves the way towards increasing dividend payout.



Alfred White, Kindersly, Saskatchewan.



Irene Fox, Niagara Falls, Ontario.



Irwin Gualey, St. Catharines, Ontario.



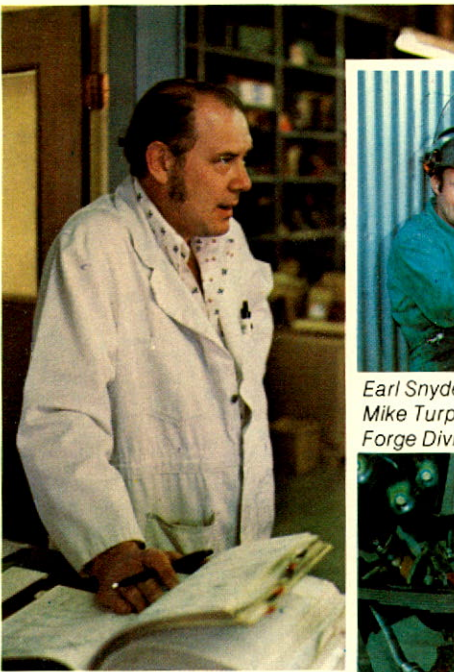
OUR PEOPLE

Our people are our number one asset. They are well trained and educated, they are superb money managers and they are quick to spot "phoney" approaches to solving job related problems.

That's why we spend extra time in meeting, talking, and yes, even arguing about the company's goals and objectives. We practice a philosophy of straightforward, honest and candid communication, which is met by equally candid feedback — it provides our people a chance to be heard.

Why is this so important? Because the greatest asset we have (you won't find it on the balance sheet) is the contribution our people can make to keep the company growing and competitive.

Our people have done a terrific job in recent years of increasing their productivity — continuing that trend is the real key to providing consistency of employment and opportunities for continued personal growth.



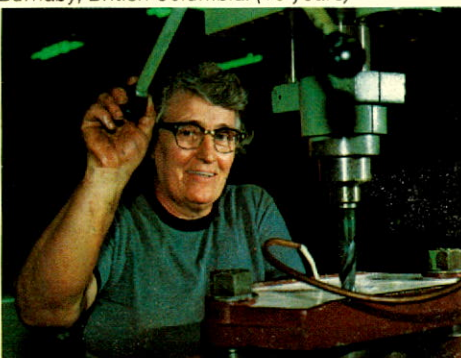
Art Degagne, Heavy Duty Products, Burnaby, British Columbia. (18 years)



Earl Snyder (11 years), Reg Powers (11 years), Mike Turpin (15 years), Forge Division, St. Catharines, Ontario.



Stan Baka, Canadian Traction Plant, Oakville, Ontario (10 years)



Phyllis Addley, Drive Train Plant, St. Thomas, Ontario (5 years)



Oliver Bock, summer help, Jim Williamson (5 years), Nasco Remanufacturing Plant, Stoney Creek, Ontario.



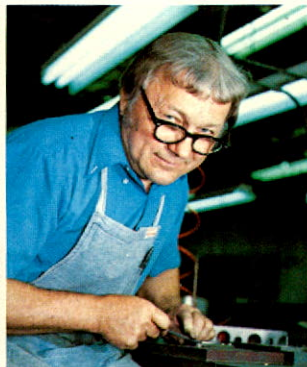
John Vandervalk (6 years), Phil Porter (6 years), Forge Division, St. Catharines, Ontario.



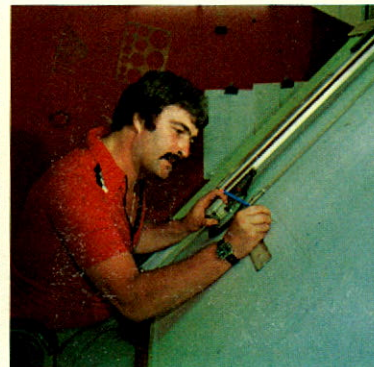
Art Smith, Drive Train Plant, St. Thomas, Ontario (10 years).



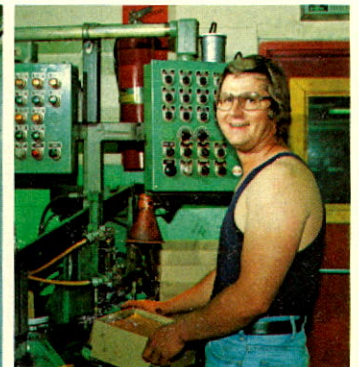
Deborah Stout, Central Distribution Warehouse, Beamsville, Ontario (1 year).



Steve Meszaros, Victor Products Plant, St. Thomas, Ontario (12 years).



Mike Durning, Chassis Products Division, Thorold, Ontario (1 year)



Marty Burton, Drive Train Plant, Thorold, Ontario (11 years)



Special application vehicle manufacturers are important customers for our power-take-offs and drive-lines. Here, Peter Scott, District Manager, Heavy Duty Products Division, (25 years) chats with Al Skeates, Application Engineer Manager, Truck Engineering Limited, Woodstock, Ontario, in front of one of their telephone company construction vehicles.



OUR CUSTOMERS

We believe it is our responsibility to provide our customers with a total response. This means that it is absolutely necessary to anticipate our customers' needs for both products and services — and then to exert every effort to fulfill our commitment.

We believe customer service is an integral part of what the customer buys and is a requisite of getting and holding business. In anticipating customers' needs we must insure that adequate capacity is available to do the job.

That's why our orientation is toward efficient production that results in rapid delivery of uniform, high quality, competitively priced products.



OUR PUBLIC AT LARGE

A great concern today is the lack of understanding of the free enterprise system. That is why we believe business and industry must take positive action to explain to those in government and education and to the public at large the advantages private enterprise offers

To this end, we have a continuing communications program with our major "publics", which includes meetings with our Members of Parliament, talks to school groups, and articles in such publications as the annual and quarterly reports, and the "Hayes-Dana Contact" our employee news magazine.

To keep the public at large informed we provide the news media with accurate up-to-date information about both our problems and our accomplishments.

We work at being good neighbours in the communities where we maintain facilities, and we encourage active participation on the part of all our people in community action.

Many of our people give unstintingly of their time to serve community agencies such as: the United Way, Junior Achievement, the Chamber of Commerce, and some are serving their communities directly in elective office.

That's the kind of community leadership we are proud of and that's what free enterprise is all about — having a choice!

Recent examples of communication in print.

Fourteen Niagara Peninsula mayors recently toured the Chassis Products Division in Thorold.

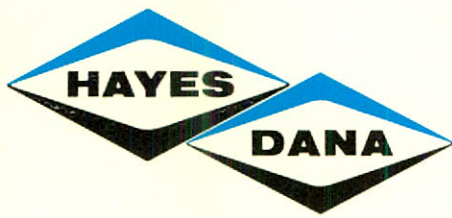
Niagara Falls Mayor, George Bukator chats with Jim Tufts (6 years) during the Chassis Products tour.

A fifty foot billboard promoting public service groups moves to strategic locations in Niagara Falls, St. Catharines and Welland.

Don MacKay, Manager - Drive Train Division, Thorold, (11 years), Facilities Chairman of Junior Achievement of the Niagara Peninsula, checks maintenance with Ruth Strawn, Executive Director of J.A. at the St. Catharines workshop located at the Hayes-Dana Forge Plant.

Hayes-Dana executives keep in touch with Members of Parliament. Here, Dick Maines, Vice-President of Finance; Bill Andres, M.P. Lincoln; Gib Parent, M.P. St. Catharines and Woody Morcock, Vice-President and General Manager exchange views during a meeting at the company's office in Thorold.





PROFILE

WHO WE ARE

Hayes-Dana is a diversified manufacturer and supplier of products to trucks, cars, and off-road vehicle manufacturers; auto and truck replacement parts distributors; truck service centres and agricultural and industrial equipment manufacturers and distributors.

OUR PRINCIPAL PRODUCTS

- Light truck frames
- Heavy truck axle housings
- Axle components
- Truck trailer axles
- Universal joints
- Driveshaft assemblies
- Agricultural driveshafts and gear boxes
- Gaskets
- Remanufactured clutches, water pumps, and electrical components
- Truck service centres

ASSETS

Our assets include 2500 people working intelligently and productively at 27 locations across Canada.

RANKING

The 1978 Financial Post ranking of Canada's 300 largest companies ranked Hayes-Dana by size as 151st in sales, 124th in net income, 172nd in assets and our five year compound earnings growth rate of 14.3% ranked us 67th.

STOCK PROFILE

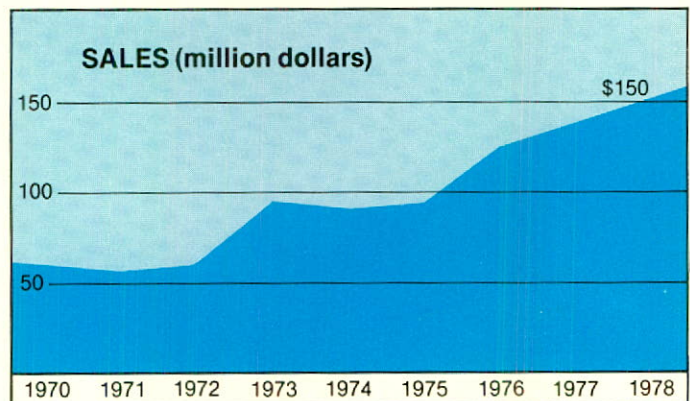
Hayes-Dana now has some 2800 shareholders and is publicly listed on the Toronto Stock Exchange under the symbol Hay-A.

MARKET PRICE OF STOCK HAYES-DANA "A"

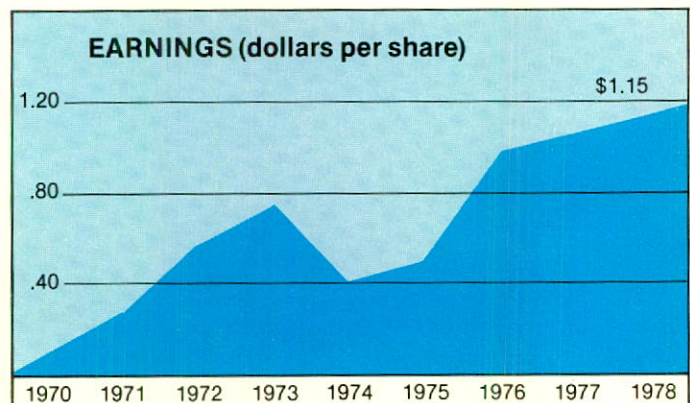
FISCAL QUARTER ENDED	1978		1977	
	Hi	Lo	Hi	Lo
Nov. 30	6-1/8	5-1/2	6-1/2	5-5/8
Feb. 28	6	5-5/8	5-7/8	5-1/2
May 31	8-3/4	7-3/8	5-3/4	5-1/8
Aug. 31	9-1/4	8-1/2	5-7/8	5-3/8

HOW DID WE DO?

1978 SALES AND EARNINGS WERE UP AGAIN — FOR THE FIFTH CONSECUTIVE YEAR.

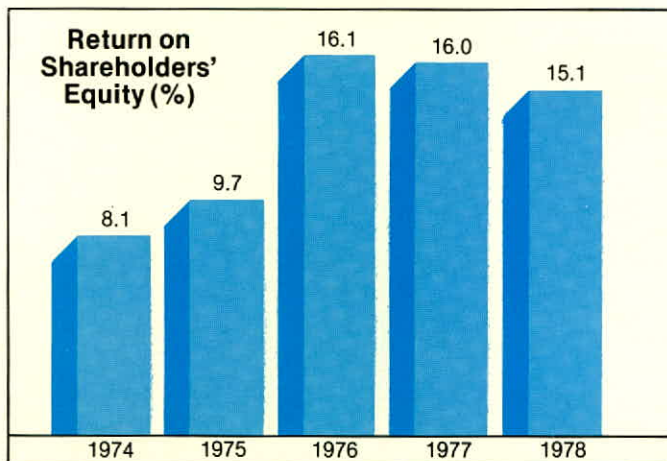


Net sales have almost tripled over the past eight years, an average annual growth rate of better than 13% since 1970.

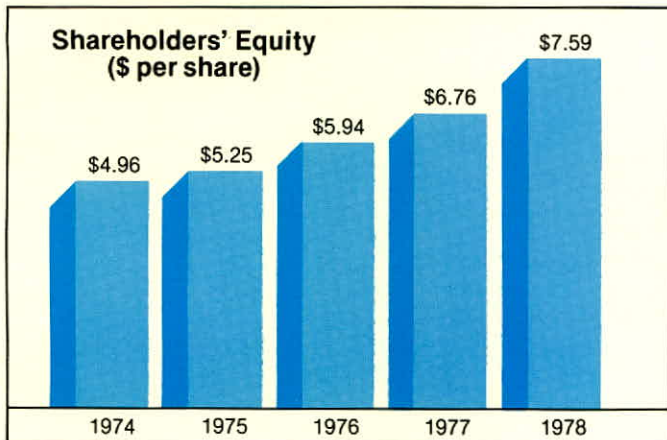


Earnings per share increased to \$1.15 per share, an average annual growth rate of 22% since 1970. The common stock dividend was recently raised — for the third time in three years — reaching a payout of \$.31 per class A share in 1978.

WHAT WAS THE SHAREHOLDERS' RETURN



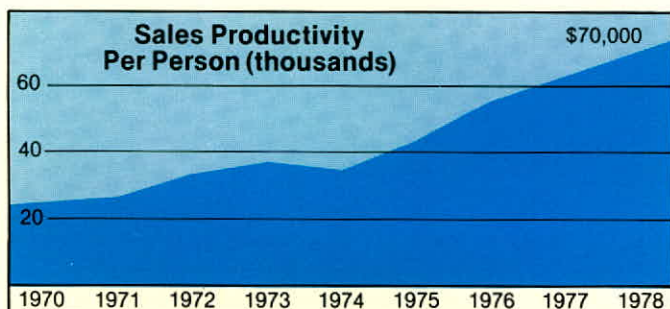
Return on shareholders' equity has exceeded 15% for three consecutive years. Our current objective is to raise that to a consistent 18%.



The "book" or net asset value per common share has increased steadily over the years — an indication of the underlying asset strength of the Company.

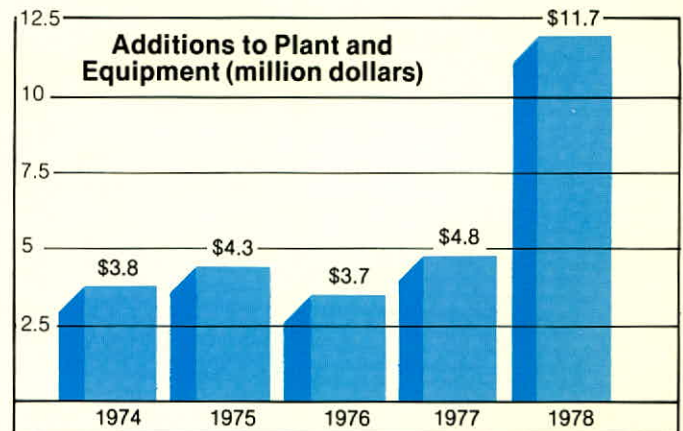
PEOPLE ARE THE KEY

THE PEOPLE OF HAYES-DANA HAVE CONSISTENTLY INCREASED THEIR PRODUCTIVITY.

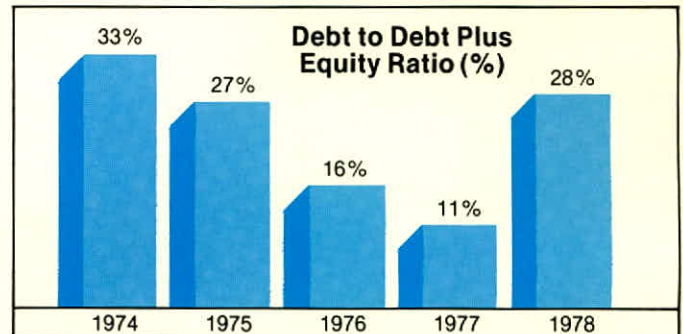


Sales per person reached \$70,000 in 1978, continuing an upward trend that confirms our belief that the men and women of Hayes-Dana are the key to our success now and in the future.

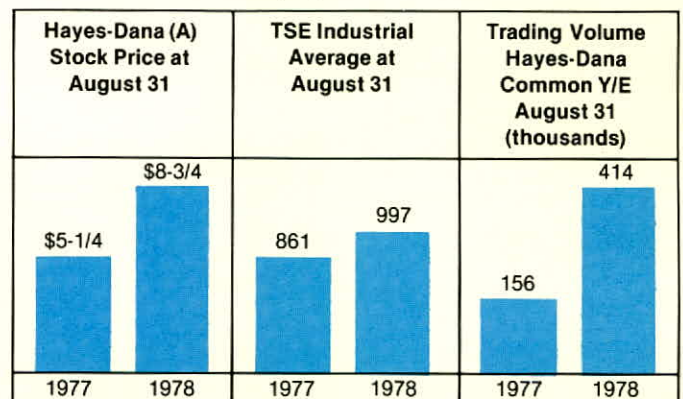
WHAT ELSE SHOULD YOU KNOW?



In 1978 we invested a record \$11.7 million in fixed capital in support of product-market growth. Our return on investment criteria preclude investments that fall below a hurdle rate of 18%.



Our debt is increasing to support the market growth that we see continuing into the 1980's. We will continue to limit our debt to a level that can be easily serviced about 1/3rd debt to 2/3rds debt plus equity — while working to enhance shareholder return through the benefits of leveraging.



The closing price of Hayes-Dana A common was \$8-3/4 on August 31, 1978 an increase of 67% over the prior year. By comparison the TSE Industrial average closed at 997.30 up 16%. Another indication of growing investor interest in Hayes-Dana shares is a dramatic increase in the volume at shares traded — 414,400 shares in fiscal 1978 versus 155,900 last year — up more than 2-1/2 times.

HAYES-DANA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

		AUGUST 31	
ASSETS		1978	1977
CURRENT ASSETS:			
Cash	<i>funds available immediately.</i>	\$ 170,000	\$ 483,000
Accounts receivable	<i>amounts owed to the company under normal credit terms.</i>	19,498,000	9,824,000
Refundable and prepaid income taxes	<i>tax payments to be applied against future tax installments.</i>	1,950,000	548,000
Inventories (note 2)	<i>products being held for sale as well as raw material and partially finished products.</i>	34,359,000	25,543,000
Prepaid expenses	<i>advance payments for services yet to be received such as prepaid insurance.</i>	749,000	668,000
		<hr/>	<hr/>
		\$56,726,000	\$37,066,000
FIXED ASSETS, AT COST:			
Land and improvements to land		1,132,000	1,042,000
Buildings	<i>tangible property of relatively long life that is used in the production and sale of our products.</i>	12,467,000	11,777,000
Machinery and equipment		52,569,000	49,751,000
		<hr/>	<hr/>
		66,168,000	62,570,000
Less — Accumulated depreciation	<i>portions of the cost of an asset charged off to expense over its estimated useful life.</i>	29,566,000	34,380,000
		<hr/>	<hr/>
		36,602,000	28,190,000
OTHER ASSETS:			
Investments at equity	<i>investment in joint company at cost plus equity in earnings.</i>	142,000	119,000
Goodwill	<i>intangible asset representing the difference between purchase price and book value of acquired companies.</i>	949,000	1,078,000
		<hr/>	<hr/>
		1,091,000	1,197,000
TOTAL ASSETS		<hr/>	<hr/>
		\$94,419,000	\$66,453,000

LIABILITIES AND SHAREHOLDERS' EQUITY		AUGUST 31	
		1978	1977
CURRENT LIABILITIES:			
Bank advances		\$14,313,000	\$ —
Notes payable to Dana Corporation and affiliate	loans normally payable within one year.	3,300,000	—
Accounts payable and accrued liabilities	amounts owed to suppliers, and other creditors under normal credit extension.	19,191,000	11,259,000
Dividend payable	dividend declared but payable after fiscal year end.	407,000	397,000
Due to Dana Corporation and affiliates	amounts owed to Dana Corporation and affiliates for materials and services.	1,086,000	1,273,000
		<u>\$38,297,000</u>	<u>\$12,929,000</u>
LONG-TERM DEBT:			
Note payable	loans payable with a term exceeding one year.	—	4,898,000
DEFERRED INCOME TAXES	deferred taxes arising from timing differences between accounting and taxable income.	10,274,000	7,793,000
SHAREHOLDERS' EQUITY (notes 3 & 4):			
Common shares, without nominal or par value	capital contribution by the common shareholders.	9,545,000	9,534,000
Retained earnings	cumulative increase in the stockholders' equity as a result of company operations.	36,303,000	31,299,000
		<u>\$45,848,000</u>	<u>\$40,833,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$94,419,000</u>	<u>\$66,453,000</u>

HAYES-DANA LIMITED
AND SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF
INCOME AND RETAINED EARNINGS**

		YEAR ENDED AUGUST 31	
		1978	1977
SALES	<i>revenues from the sale of our products and services.</i>	\$150,081,000	\$145,164,000
Dividends, interest and other income (net)		470,000	631,000
		<u>\$150,551,000</u>	<u>\$145,795,000</u>
Costs and expenses			
Cost of sales	<i>material, labour, and overhead costs used in the manufacture of our products.</i>	130,014,000	127,328,000
Selling, general and administrative expenses	<i>overhead costs associated with general sales and administrative activities.</i>	8,370,000	6,791,000
Interest on long-term debt	<i>charge for the use of borrowed money.</i>	219,000	562,000
Bank interest		657,000	295,000
		<u>139,260,000</u>	<u>134,976,000</u>
Income before income taxes	<i>excess of total revenues over total expenses before income taxes.</i>	11,291,000	10,819,000
Income taxes	<i>taxes computed on income.</i>	4,355,000	4,270,000
Net income for the year	<i>excess of total revenues over total expenses.</i>	<u>\$ 6,936,000</u>	<u>\$ 6,549,000</u>
Net income per share		\$1.15	\$1.08

**CONSOLIDATED STATEMENT OF
RETAINED EARNINGS**

Balance at beginning of year		\$ 31,299,000	\$ 26,342,000
Net income for the year	<i>per consolidated statement of income.</i>	6,936,000	6,549,000
Cash dividends declared (note 3)	<i>Class A \$.319 in 1978 versus \$.26 in 1977 Class B \$.319 in 1978 versus \$.219 in 1977</i>	1,932,000	1,592,000
Balance at end of year		<u>\$ 36,303,000</u>	<u>\$ 31,299,000</u>

HAYES-DANA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED AUGUST 31
1978 1977

FINANCIAL RESOURCES WERE PROVIDED BY:

Net income	<i>per consolidated statement of income.</i>	\$ 6,936,000	\$ 6,549,000
Charges (credits) not requiring current funds —			
Amortization of goodwill	<i>goodwill arising from acquisition of shares of subsidiaries being amortized over a ten year period.</i>	129,000	132,000
Depreciation	<i>portions of the cost of fixed assets charged to expense according to a predetermined schedule.</i>	3,223,000	3,344,000
Deferred income taxes	<i>differences between accounting and taxable income.</i>	2,481,000	(158,000)
Funds from operations		12,769,000	9,867,000
Capital stock issued	<i>options exercised under stock option plan.</i>	11,000	—
		<u>\$12,780,000</u>	<u>\$ 9,867,000</u>

FINANCIAL RESOURCES WERE USED FOR:

Additions to plant and equipment (net)	<i>expenditures for machinery and equipment primarily to increase capacity.</i>	11,635,000	3,780,000
Dividends and special tax paid	<i>dividends paid on Class A & B shares. Class B shares are entitled to dividends out of tax-paid undistributed surplus.</i>	1,932,000	1,592,000
Decrease in long-term debt	<i>paid off U.S. dollar denominated debt.</i>	4,898,000	—
Increase in investment at equity	<i>earnings from joint company.</i>	23,000	39,000
		<u>\$18,488,000</u>	<u>\$ 5,411,000</u>
Increase (decrease) in working capital		(5,708,000)	4,456,000
Working capital at beginning of year		24,137,000	19,681,000
Working capital at end of year		<u>\$18,429,000</u>	<u>\$24,137,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — AUGUST 31, 1978

1. SUMMARY OF ACCOUNTING POLICIES:

The significant accounting practices and policies employed in the preparation of the consolidated financial statements of Hayes-Dana Limited are summarized below:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies, Hayes-Dana Parts Co. Ltd., Hayes-Dana Properties Limited, Hayes-Dana Special Services Limited, HDSP Parts Limited, Byers Truck & Trailer Equipment Limited and Western Wheel & Parts Ltd.

Investments in corporate joint ventures are carried at cost plus equity in their undistributed net income.

Depreciation is computed over the estimated useful lives of property, plant and equipment using the straight-line method at rates of 2-1/2% and 5% on buildings and generally 10% on machinery and equipment. The carrying value of properties retired or otherwise disposed of, and accumulated depreciation thereon, are eliminated from the accounts and any resulting gain or loss is recognized in income. Expenditures for maintenance and repairs are charged to income and renewals and betterments are capitalized.

The Company follows the tax allocation basis of accounting for taxes on income whereby deferred income taxes are provided on all significant timing differences between accounting and taxable income, primarily accelerated depreciation claimed for tax purposes in excess of amounts recorded in the accounts. The Company uses the "flowthrough" method of accounting for investment tax credits as a reduction of the current provision for federal income taxes.

The Company's operations are affected to some extent by model changes. It is the Company's policy to defer expenditures incurred to bring manufacturing operations into full production as a result of major expansions and model changeovers, and to amortize such expenditures over the estimated production life of the new design.

Foreign currency balances and transactions are translated into Canadian dollars as follows: long-term assets and liabilities at exchange rates in effect at dates of acquisition; current assets and liabilities at rates in effect at August 31; revenue and expenses at average rates for the year. Unrealized gains on trans-

lation of foreign currency are deferred and carried forward on the consolidated balance sheet; unrealized losses are charged to income. An unrealized gain of \$1,486,000 as at August 31, 1978 (1977 — \$456,000) resulting from the translation of net current balances at year-end rates of exchange was deferred in the accounts.

Goodwill arising from acquisition of shares of subsidiaries is being amortized over a ten year period.

Earnings per share are computed on the basis of the weighted average number of shares outstanding during the year. Shares reserved for issuance under the stock option plan would not materially dilute earnings per share.

2. INVENTORIES

Inventories are valued at the lower of cost and net realizable value with cost determined on a first-in, first-out basis, and consisted of:

	1978	1977
Raw materials	\$ 8,722,000	\$ 5,642,000
Work-in-process and finished goods	25,637,000	19,901,000
	<u>\$34,359,000</u>	<u>\$25,543,000</u>

3. CAPITAL STOCK:

The authorized capital of the Company is 8,000,000 Class A and B shares. There are 6,039,546 shares issued consisting of 5,887,963 Class A and 151,583 Class B as of August 31, 1978. The shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends but Class A shares are entitled to taxable cash dividends; Class B shares are entitled to dividends out of tax-paid undistributed surplus on hand and 1971 capital surplus on hand. These dividends will be in an amount equivalent to the dividends paid on the Class A shares less any applicable taxes.

4. STOCK OPTIONS:

The Employees' Stock Option Plan provides for options to be granted to key employees to purchase up to 310,250 shares of the Company's capital stock at a price equal to the market value of the shares at the date granted. During the year ended August 31, 1978 1,890 options were exercised for cash of \$10,631 and options on 40,150 shares were granted. At August 31, 1978 the following options to purchase were outstanding:

Expiry Date	Option Price Per Share
September 25, 1978	\$9.050
September 25, 1979	\$5.000
December 16, 1981	\$5.625
December 16, 1982	\$5.125

Number of shares at August 31	
1978	1977
8,925	8,925
10,500	10,500
30,610	32,500
40,050	—
<u>90,085</u>	<u>51,925</u>

Options for 35,845 shares are held by six officers two of whom are directors.

5. REMUNERATION OF DIRECTORS AND OFFICERS:

The Company and its subsidiaries paid \$35,000 to thirteen directors, as directors, and \$317,000 to seven officers, as officers, three of whom are directors.

6. PENSION PLANS:

The unfunded past service liability of the Company's pension plans which is being amortized over not more than fifteen years is estimated by independent actuaries to be approximately \$16,400,000 (1977 — \$16,500,000) of which \$13,900,000 represents employee vested benefits (1977 — \$12,900,000). Pension plan expenses for the year amounted to \$3,298,000 (1977 — \$2,518,000).

7. COMMITMENTS:

At August 31, 1978 the companies were committed under non-cancellable leases for the following minimum annual rentals:

1979	\$787,000
1980	592,000
1981	481,000
1982	415,000
1983	337,000

Outstanding commitments relating to the purchase of machinery and equipment amount to approximately \$3,700,000 at August 31, 1978.

8. ANTI-INFLATION ACT:

The Company and its subsidiaries are subject to, and believe they have complied with controls on price, profits, compensation and dividends under the Canadian federal government's anti-inflation act.

AUDITORS' REPORT

To the Shareholders of Hayes-Dana Limited:

We have examined the consolidated balance sheet of Hayes-Dana Limited as at August 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at August 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Ontario
September 27, 1978

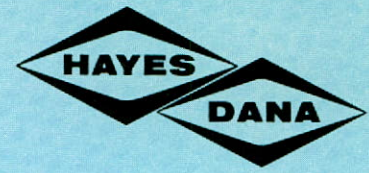
PRICE WATERHOUSE & CO.
Chartered Accountants

CONDENSED FINANCIAL SUMMARY

FOR THE FISCAL YEARS	1978	1977	1976	1975	1974
OPERATING DATA					
NET SALES	\$150,081,000	\$145,164,000	\$128,944,000	\$90,187,000	\$90,051,000
Cost of Sales	130,014,000	127,328,000	112,724,000	79,785,000	81,124,000
Interest Expense	876,000	857,000	874,000	1,219,000	1,194,000
Income before Income Taxes	11,291,000	10,819,000	9,961,000	5,273,000	4,312,000
Income Taxes	4,355,000	4,270,000	4,170,000	2,228,000	1,904,000
NET INCOME.....	6,936,000	6,549,000	5,791,000*	3,045,000	2,408,000
Net Income for the Year Retained for Growth	5,004,000	4,957,000	4,345,000	1,609,000	805,000
Net Income per Share of Common Stock	\$1.15	\$1.08	\$.96*	\$.51	\$.40
Cash Dividends Declared per Share of Common Stock	\$.319	\$.264	\$.24	\$.24	\$.24
YEAR END FINANCIAL POSITION					
Working Capital	18,429,000	24,137,000	19,681,000	9,568,000	8,423,000
Property, Plant and Equipment at cost	66,168,000	62,570,000	59,106,000	55,259,000	52,580,000
Property, Plant and Equipment, Less Accumulated Depreciation and Amortization.....	36,602,000	28,190,000	27,754,000	31,221,000	31,198,000
Total Assets	94,419,000	66,453,000	65,445,000	61,326,000	65,148,000
Long-Term Debt	—	4,898,000	4,898,000	1,500,000	4,000,000
Shareholders' Equity	45,848,000	40,833,000	35,876,000	31,271,000	29,662,000
Ratio of Current Assets to Current Liabilities	1.5:1	2.9:1	2.2:1	1.5:1	1.4:1
Shareholders' Equity per Share	\$7.59	\$6.76	\$5.94	\$5.22	\$4.96

*After extraordinary charge

** Thirteen months



OUR SENIOR MANAGEMENT

HUGH COSGROVE (29 years)
Forge Division Manager

LEWIS DENSMORE (41 years)
Vice-President Administration

ROGER HEISE (7 years)
Chassis Products Division
Manager

GEORGE HOUGH (25 years)
Corporate Controller

DON MacKAY (11 years)
Drive Train Division Manager

DICK MAINES (21 years)
Vice-President Finance

BUD McLAUGHLIN (12 years)
Manager, Personnel and
Corporate Relations

JIM MCGILL (37 years)
Manager Safety and Facilities

WOODY MORCOCK (15 years)
Executive Vice-President
and General Manager

BOB MOSSBERGER (29 years)
Heavy Duty Products Division
Manager

BOB NEELIN (27 years)
Truck Service Centres Division
General Manager

MIKE OSTROWSKI (10 years)
Automotive Products Division
- Manager

1973	1972	1971	1970	1969**
\$97,735,000	\$64,596,000	\$51,305,000	\$54,945,000	\$65,095,000
85,805,000	55,467,000	44,851,000	48,340,000	56,580,000
1,040,000	553,000	521,000	637,000	506,000
7,939,000	5,722,000	3,375,000	3,275,000	4,886,000
3,290,000	2,370,000	1,654,000	1,925,000	2,580,000
4,649,000	3,352,000	1,721,000	1,350,000	2,306,000
3,281,000	2,120,000	527,000	156,000	714,000
\$.78	\$.56	\$.29	\$.23	\$.39
\$.23	\$.20	\$.20	\$.20	\$.21
8,158,000	7,575,000	6,498,000	6,592,000	8,483,000
48,943,000	42,738,000	34,227,000	32,738,000	29,633,000
30,812,000	27,260,000	20,754,000	21,199,000	19,595,000
61,792,000	55,856,000	41,207,000	42,818,000	40,833,000
6,000,000	4,000,000	—	1,000,000	2,000,000
28,704,000	25,417,000	23,297,000	22,770,000	22,614,000
1.4:1	1.4:1	1.5:1	1.5:1	1.7:1
\$4.80	\$4.25	\$3.89	\$3.81	\$3.78



OUR BOARD OF DIRECTORS

According to the Company By-Laws, "The affairs of the Company shall be managed by a board of twelve directors — elected yearly to hold office until the next annual meeting of the shareholders"

We are proud of the twelve directors who make up our board. They are hardworking, independent (8 of the 12 are "outside" directors), and bring a wealth of broad experience and background to their positions. They meet five times yearly, in regular meetings plus two to four additional meetings, as required, to fulfill committee assignments.

There are four committees: Executive, Finance, Audit, and Compensation: All but the Executive committee have a majority of outside directors — and all committees are chaired by outside directors. These men take on a tremendous responsibility because the directors are deemed to be the fiduciaries — in effect, the corporate conscience — for all the stock holders, with a public trust to diligently protect the broad interests of the Company.

We think they do an outstanding job of upholding your trust.



HARRY J. CARMICHAEL
- Toronto, Ontario
Industrialist
Chairman of the Executive Committee



A. GRAHAM COULTER
- Oshawa, Ontario
President - Seeburn Metal Products Limited
Chairman of the Audit Committee
Member of the Finance Committee



GEORGE D. DORESKO
- Toledo, Ohio
President - Hayes-Dana Limited
Member of the Executive Committee
Member of the Finance Committee



MERVYN L. LAHN
- London, Ontario
President - Canada Trust Company
Member of the Audit Committee



RENE C. McPHERSON

- Toledo, Ohio

Chairman of the Board - Dana Corporation
Member of the Finance Committee
Member of the Compensation Committee



GERALD B. MITCHELL

- Toledo, Ohio

Chairman of the Board
- Hayes-Dana Limited
Member of the Executive Committee



S. J. "WOODY" MORCOCK

- St. Catharines, Ontario

Executive Vice-President and General
Manager - Hayes-Dana Limited
Member of the Executive Committee



BENJAMIN P. NEWMAN

- St. Catharines, Ontario

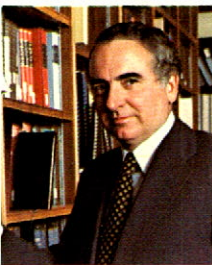
President - Newman Steel Limited
Member of the Audit Committee



SAMUEL T. PATON

- Toronto, Ontario

Chairman of the Board
- Wobaco Holding Company S.A.
Chairman of the Finance Committee
Member of the Compensation Committee



JOHN D. STEVENSON, Q.C.

- Toronto, Ontario

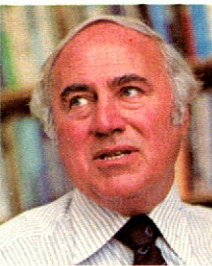
Partner - Smith, Lyons, Torrance,
Stevenson & Mayer
Member of the Finance Committee
Member of the Compensation Committee



DONALD G. WILLMOT

- Toronto, Ontario

Chairman of the Board
- The Molson Companies Limited
Chairman of the Compensation Committee
Member of the Executive Committee



JOHN J. WETTLAUFER

- London, Ontario

Professor - Business Administration,
Western University
Member of the Finance Committee
Member of the Audit Committee



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1978